

ORIGINAL
COMMISSIONERS
GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS



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ARIZONA CORPORATION COMMISSION

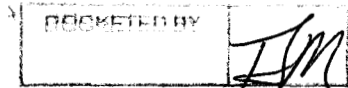
Arizona Corporation Commission

DOCKETED

DATE: OCTOBER 1, 2012

OCT 01 2012

DOCKET NO.: W-03948A-12-0181



TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Belinda A. Martin. The recommendation has been filed in the form of an Order on:

EMPIRITA WATER COMPANY, L.L.C.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

OCTOBER 10, 2012

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

OCTOBER 16, 2012 and OCTOBER 17, 2012

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

2012 OCT 1 PM 30

DOCKET CONTROL
AZ CORP COM ON
10/1/12

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 GARY PIERCE - Chairman
4 BOB STUMP
5 SANDRA D. KENNEDY
6 PAUL NEWMAN
7 BRENDA BURNS

8 IN THE MATTER OF THE APPLICATION OF
9 EMPIRITA WATER COMPANY, LLC, FOR A
10 PERMANENT RATE INCREASE.

DOCKET NO. W-03948A-12-0181

DECISION NO. _____

11 **ORDER**

12 Open Meeting
13 October 16 and 17, 2012
14 Phoenix, Arizona

15 **BY THE COMMISSION:**

16 Having considered the entire record herein and being fully advised in the premises, the
17 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

18 **FINDINGS OF FACT**

19 1. Empirita Water Company, LLC ("Empirita" or "Company") is an Arizona limited
20 liability company authorized by the Commission to provide water utility service to the public in an
21 area approximately eight miles west of the City of Benson, in portions of Cochise County and Pima
22 County, Arizona, by Decision Nos. 63676 (May 24, 2001) and 69399 (March 29, 2007).¹ The
23 Company's present rates and charges for water service were approved in Decision 70203 (March 20,
24 2008).²

25 2. On May 18, 2012, Empirita filed an application with the Commission for an increase
26 in its permanent rates ("Application"). Empirita included an affidavit in its Application attesting that

27 ¹ There are six residential subdivisions planned for Empirita's certificated service area. Five of the developments are in
28 Cochise County and one is in Pima County. Currently, Empirita serves customers in the two subdivisions currently under
development. Staff Report, pages 3-4.

² The Decision directed Empirita to file a new rate application by May 1, 2012, using a December 31, 2011, test year.
Empirita filed a letter in that rate case, Docket No. W-03948A-07-0495, on May 1, 2012, requesting an extension of the
filing deadline from May 1, 2012, to June 1, 2012. Staff did not file a recommendation about Empirita's request, but the
Application was filed on May 18, 2012.

notice of the Application had been mailed to all customers on May 1, 2012. No customer comments were filed in response to the notice.

3. On June 15, 2012, the Commission's Utilities Division Staff ("Staff") determined Empirita's Application was sufficient and classified the Company as a Class E utility, and on June 18, 2012, Staff filed a Correction of Sufficiency Letter Due Dates.

4. On August 14, 2012, Staff filed its Staff Report, recommending approval of the Application using Staff's recommended rates and charges, subject to certain conditions. Empirita did not file any objections to the Staff Report.

5. During the test year ending December 31, 2011, Empirita had 33 customers, all served by 5/8-inch x 3/4-inch meters. Average and median usages on the 5/8-inch x 3/4-inch meters during the test year were 7,869 and 4,744 gallons per month, respectively. The rates and charges for the Company at present, as proposed in the Application, and as recommended by Staff are as follows:

	<u>Present Rates</u>	<u>Proposed Rates Company</u>	<u>Proposed Rates Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$30.00	\$30.00	\$30.00
3/4" Meter	45.00	45.00	45.00
1" Meter	75.00	75.00	75.00
1 1/2" Meter	150.00	150.00	150.00
2" Meter	240.00	240.00	240.00
3" Meter	480.00	480.00	480.00
4" Meter	750.00	750.00	750.00
6" Meter	1,500.00	1,500.00	1,500.00
Gallons included in minimum	0	0	0
<u>COMMODITY RATES:</u>			
Per 1,000 gallons			
<u>All Meter Sizes</u>			
0 to 3,000 gallons	\$2.50	\$2.50	N/A
3,001 gallons to 9,000	3.75	3.75	N/A
Over 9,000 gallons	4.50	4.50	N/A
<u>5/8-inch x 3/4-inch Meter</u>			
0 to 3,000 gallons	N/A	N/A	\$ 2.50
3,001 to 9,000 gallons	N/A	N/A	4.50
Over 9,000 gallons	N/A	N/A	6.00
<u>3/4-inch Meter</u>			
0 to 3,000 gallons	N/A	N/A	\$2.50

1	3,001 to 9,000 gallons	N/A	N/A	4.50
2	Over 9,000 gallons	N/A	N/A	6.00
3	<u>1-inch Meter</u>			
4	0 to 40,000 gallons	N/A	N/A	\$4.50
5	Over 40,000 gallons	N/A	N/A	6.00
6	<u>1 1/2-inch Meter</u>			
7	0 to 120,000 gallons	N/A	N/A	\$4.50
8	Over 120,000 gallons	N/A	N/A	6.00
9	<u>2-inch Meter</u>			
10	0 to 225,000 gallons	N/A	N/A	\$4.50
11	Over 225,000 gallons	N/A	N/A	6.00
12	<u>3-inch Meter</u>			
13	0 to 500,000 gallons	N/A	N/A	\$4.50
14	Over 500,000 gallons	N/A	N/A	6.00
15	<u>4-inch Meter</u>			
16	0 to 800,000 gallons	N/A	N/A	\$4.50
17	Over 800,000 gallons	N/A	N/A	6.00
18	<u>6-inch Meter</u>			
19	0 to 1,500,000 gallons	N/A	N/A	\$4.50
20	Over 1,500,000 gallons	N/A	N/A	6.00

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

**Company Present, Company Proposed and
Staff Recommended Charges**

	<u>Service Line Charge</u>	<u>Meter Charge</u>	<u>Total Charge</u>
5/8" x 3/4" Meter	\$365.00	\$85.00	\$450.00
3/4" Meter	360.00	170.00	530.00
1" Meter	410.00	210.00	620.00
1 1/2" Meter	440.00	425.00	865.00
2" Turbo	615.00	920.00	1,535.00
2" Compound	610.00	1,650.00	2,260.00
3" Turbo	775.00	1,440.00	2,215.00
3" Compound	825.00	2,225.00	3,050.00
4" Turbo	1,080.00	2,300.00	3,380.00
4" Compound	1,170.00	3,165.00	4,335.00
6" Turbo	1,660.00	4,490.00	6,150.00
6" Compound	1,750.00	6,200.00	7,950.00

SERVICE CHARGES:

	<u>Present Charges</u>	<u>Company Proposed</u>	<u>Staff Recommendations</u>
Establishment	\$30.00	\$30.00	\$30.00
Establishment (After Hours)	45.00	N/A	N/A

1	Reconnection (Delinquent)	35.00	\$35.00	\$35.00
	After Hours Service Charge	N/A	30.00	30.00
2	Deposit	*	*	*
	Deposit Interest	*	*	*
3	Reestablishment (Within 12 Months)	**	**	**
	Moving Meter at Customer Request	***	***	***
4	Meter Test (If Correct)	N/A	\$25.00	\$25.00
	Meter Re-read (If Correct)	\$20.00	25.00	25.00
5	Deferred Payment (Per Month)	****	****	****
	NSF Check	\$25.00	\$25.00	\$25.00
6	Late Fee (Per Month)	****	****	****
	Main Extension and Additional	Cost	N/A	N/A
7	Facilities Agreement			
8	Monthly Service Charge for Fire Sprinkler:			
9	4" or Smaller	*****	*****	*****
	6"	*****	*****	*****
10	8"	*****	*****	*****
	10"	*****	*****	*****
11	Larger than 10"	*****	*****	*****

* Per Commission rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

*** Cost to include parts, labor, overhead, and all applicable taxes, including income tax, if applicable.

**** 1.50 percent per month of the unpaid balance.

***** 2.00 percent of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct for the primary water service line.

6. Staff determined Empirita's adjusted original cost rate base to be \$402,286, which is the same as its fair value rate base ("FVRB"). This is a \$2,107 increase to Empirita's proposed FVRB of \$400,179, due to Staff's adjustments to plant-in-service, accumulated depreciation, contributions in aid of construction ("CIAC"), amortization of CIAC, and working capital. Empirita did not oppose Staff's adjustments to FVRB.

7. We find Staff's adjustments to Empirita's FVRB are reasonable and we adopt Staff's proposed FVRB of \$402,286.

8. Staff adopted Empirita's proposed test year operating revenues of \$22,442. Staff made several adjustments to Empirita's proposed test year operating expenses, resulting in a decrease of \$600, from \$34,472 to \$33,872, due to Staff's adjustments to water testing, depreciation, and property tax expenses. After Staff's adjustments, Empirita's present water rates and charges reflect an operating loss of (\$11,330), for no return on its FVRB during the test year.

1 9. Despite the operating loss, Empirita did not request an increase in revenues over those
2 of the test year. Empirita related to Staff that its customer growth is much slower than originally
3 anticipated and the increase in rates necessary to produce a positive operating income would pose a
4 financial burden on the Company's customers. According to Staff, Empirita's shareholder has the
5 necessary funds to meet the Company's financial obligations and is willing to provide the money
6 needed to ensure Empirita's service is safe and reliable. Although Empirita is not requesting a rate
7 increase at this time, Staff believes a gradual increase in rates now will not only decrease on-going
8 operating losses, but could also mitigate the size of future rate increases.

9 10. Staff's recommended revenue of \$24,917 represents an increase of \$2,375, or 10.54
10 percent, over test year revenue of \$22,542. After applying an adjusted test year operating expense of
11 \$33,872, Empirita will experience an operating loss of (\$8,955), but Staff stated its recommended
12 revenue requirement will provide Empirita with \$4,992 in uncommitted cash flow from operations,
13 enabling the Company to meet all obligations.³

14 11. Empirita did not propose any changes in its current rates.

15 12. Under Staff's recommended rates, the bill for a customer with median monthly water
16 use of 4,744 gallons will increase by \$1.31, or 3.0 percent, from \$44.04 to \$45.35, and the bill for a
17 customer with average monthly water use of 7,869 gallons will increase by \$3.65, or 6.5 percent,
18 from \$55.76 to \$59.41.

19 13. We find Staff's recommended revenue requirement and rates and charges are
20 reasonable and shall be adopted.

21 14. Staff learned Empirita and the developer of one of the subdivisions, Red Hawk II, did
22 not enter into a main extension agreement for a water main extension line constructed by the
23 developer in 2008 at a cost of \$233,921. Staff recommended Empirita enter into a main extension
24 agreement with the developer as required by Arizona Administrative Code ("A.A.C.") R14-2-406 and
25 submit the agreement to Staff for approval by December 31, 2012.

26
27
28 ³ Staff Report, page 6, Schedule MJR-6. (\$8,955) plus \$14,890 from depreciation expense, less \$943 in AIAC.

1 15. Staff also recommended Empirita file with Docket Control, as a compliance item in
2 this docket, within 90 days of the effective date of this Decision, at least three Best Management
3 Practices ("BMPs") in the form of tariffs that substantially conform to the templates created by Staff
4 (and available on the Commission's Website) for the Commission's review and consideration. Staff
5 recommended that the Commission authorize Empirita to request cost recovery of actual costs
6 associated with the BMPs implementation in its next rate application.

7 16. Staff recommended that Empirita may collect from its customers a proportionate share
8 of any privilege, sales or use tax as provided for in Arizona Administrative Code ("A.A.C.") R14-2-
9 409(D).

10 17. Staff recommended Empirita use the depreciation rates contained in Table C of the
11 Engineering Report.

12 18. We believe it is reasonable to direct Empirita to file with Docket Control, as a
13 compliance item in this docket, by October 31, 2012, a revised tariff schedule of the approved rates
14 and charges. Empirita shall notify its customers of the authorized rates and charges and their
15 effective date, in a form acceptable to the Commission's Utilities Division Staff, by means of an
16 insert in its next regularly scheduled billing or by a separate mailing.

17 19. According to the Staff Engineering Report, the Company's current system can
18 adequately serve its present customer base as well as any reasonable growth.

19 20. Staff states the Arizona Department of Environmental Quality reported no deficiencies
20 for the Company and determined Empirita's water system is currently delivering water that meets the
21 water quality standards required by A.A.C., Title 18, Chapter 4.

22 21. The Company is not within an Active Management Area is not subject to Arizona
23 Department of Water Resources ("ADWR") reporting and conservation requirements. An ADWR
24 Compliance Report dated June 19, 2012, showed Empirita's water system is currently in compliance
25 with ADWR requirements governing water providers and/or community water systems.

26 22. Empirita has approved Curtailment and Backflow Tariffs.

27 23. Empirita is current in its property and sales tax payments.
28

24. Staff reports there have been no complaints or opinions filed against Empirita and the Company is in good standing with the Commission's Corporations Division. Staff also reports Empirita has no outstanding compliance issues.

25. Staff's recommendations, as modified by Finding of Fact No. 18, are reasonable and shall be adopted.

CONCLUSIONS OF LAW

1. Empirita is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over Empirita and the Application's subject matter.

3. Notice of the Application was provided in the manner prescribed by Arizona law.

4. The authorized rates and charges are just and reasonable and should be approved without a hearing.

5. Staff's recommendations, as modified by Finding of Fact No. 18, are reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED that Empirita Water Company, LLC, shall file with Docket Control, as a compliance item in this docket, by October 31, 2012, revised tariffs setting forth the following rates and charges:

MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	\$30.00
3/4" Meter	45.00
1" Meter	75.00
1 1/2" Meter	150.00
2" Meter	240.00
3" Meter	480.00
4" Meter	750.00
6" Meter	1,500.00
Gallons included in minimum	0

COMMODITY RATE CHARGES:

Per 1,000 gallons

5/8-inch x 3/4-inch Meter

0 to 3,000 gallons \$ 2.50

1	3,001 to 9,000 gallons	4.50
2	Over 9,000 gallons	6.00
3	<u>3/4-inch Meter</u>	
4	0 to 3,000 gallons	\$2.50
5	3,001 to 9,000 gallons	4.50
6	Over 9,000 gallons	6.00
7	<u>1-inch Meter</u>	
8	0 to 40,000 gallons	\$4.50
9	Over 40,000 gallons	6.00
10	<u>1 1/2-inch Meter</u>	
11	0 to 120,000 gallons	\$4.50
12	Over 120,000 gallons	6.00
13	<u>2-inch Meter</u>	
14	0 to 225,000 gallons	\$4.50
15	Over 225,000 gallons	6.00
16	<u>3-inch Meter</u>	
17	0 to 500,000 gallons	\$4.50
18	Over 500,000 gallons	6.00
19	<u>4-inch Meter</u>	
20	0 to 800,000 gallons	\$4.50
21	Over 800,000 gallons	6.00
22	<u>6-inch Meter</u>	
23	0 to 1,500,000 gallons	\$4.50
24	Over 1,500,000 gallons	6.00

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

	Service Line	Meter	Total	
	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	
18				
19	5/8" x 3/4" Meter	\$365.00	\$85.00	\$450.00
20	3/4" Meter	360.00	170.00	530.00
	1" Meter	410.00	210.00	620.00
21	1 1/2" Meter	440.00	425.00	865.00
	2" Turbo	615.00	920.00	1,535.00
22	2" Compound	610.00	1,650.00	2,260.00
	3" Turbo	775.00	1,440.00	2,215.00
23	3" Compound	825.00	2,225.00	3,050.00
	4" Turbo	1,080.00	2,300.00	3,380.00
24	4" Compound	1,170.00	3,165.00	4,335.00
	6" Turbo	1,660.00	4,490.00	6,150.00
25	6" Compound	1,750.00	6,200.00	7,950.00

SERVICE CHARGES:

27	Establishment	\$30.00
28	Reconnection (Delinquent)	35.00
29	After Hours Service Charge	30.00

1	Meter Test (If Correct)	25.00
	Meter Re-read (If Correct)	25.00
2	NSF Check	25.00
	Deposit	*
3	Deposit Interest	*
	Reestablishment (Within 12 Months)	**
4	Charge for Moving Meter at Customer Request	***
5	Deferred Payment (Per Month)	****
	Late Fee (Per Month)	****
6	<u>Monthly Service Charge for Fire Sprinkler:</u>	
7	4" or Smaller	*****
8	6"	*****
	8"	*****
9	10"	*****
	Larger than 10"	*****
10	* Per Commission rule A.A.C. R-14-2-403(B).	
11	** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).	
	*** Cost to include parts, labor, overhead, and all applicable taxes, including income tax, if applicable.	
12	**** 1.50 percent per month of the unpaid balance.	
	***** 2.00 percent of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct for the primary water service line.	

14 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service
15 provided on and after November 1, 2012.

16 IT IS FURTHER ORDERED that Empirita Water Company, LLC, shall notify its customers
17 of the authorized rates and charges and their effective date, in a form acceptable to the Commission's
18 Utilities Division Staff, by means of an insert in its next regularly scheduled billing or in a separate
19 mailing.

20 IT IS FURTHER ORDERED that Empirita Water Company, LLC, may collect from its
21 customers a proportionate share of any privilege, sales or use tax per A.A.C. R14-2-409(D)(5).

22 IT IS FURTHER ORDERED that Empirita Water Company, LLC, shall enter into a main
23 extension agreement with the developer of the Red Hawk II subdivision as required by A.A.C. R14-
24 2-406 and submit the main extension agreement to Staff for approval by December 31, 2012.

25 IT IS FURTHER ORDERED that Empirita Water Company, LLC, shall use the depreciation
26 rates contained in Table C of the Engineering Report.

IT IS FURTHER ORDERED that within 90 days of the effective date of this Decision, Empirita Water Company, LLC, shall submit three Best Management Practices, as a compliance item in this docket, in the form of tariffs that substantially conform to the templates created by Staff (and available on the Commission's Website) for the Commission's review and consideration.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2012.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR:

EMPIRITA WATER COMPANY, LLC

2 DOCKET NO.

W-03948A-12-0181

3 Jim Vermilyea
4 EMPIRITA WATER COMPANY, LLC
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